AGRICULTURE AND GOVERNMENTS IN AN INTERDEPENDENT WORLD

PROCEEDINGS
OF THE
TWENTIETH
INTERNATIONAL CONFERENCE
OF AGRICULTURAL ECONOMISTS

Held at Buenos Aires, Argentina
24–31 August 1988

Edited by
Allen Maunder, Agricultural Economics Unit, Queen Elizabeth House
University of Oxford, England
and
Alberto Valdés, International Food Policy Research Institute
Washington DC, USA

INTERNATIONAL ASSOCIATION OF
AGRICULTURAL ECONOMISTS
QUEEN ELIZABETH HOUSE
UNIVERSITY OF OXFORD

1989

Dartmouth

T.K. WARLEY*

Agriculture in the GATT: Past and Future

INTRODUCTION

This conference is being held on the eve of the mid-term review of the Uruguay Round of multilateral trade negotiations taking place under the auspices of the General Agreement on Tariffs and Trade (GATT). Agricultural trade is one of the areas singled out for special attention in the Punte del Este declaration which launched the negotiations (GATT, 1986). Yet another attempt is being made to 'bring agricultural trade into the GATT'.

Agriculture is outside the GATT in the sense that much agricultural trade is not conducted according to the fundamental norms, rules and procedures of the GATT and has escaped the process of trade liberalization which the Agreement has fostered so successfully in its 40 years history. The GATT system is predicated on the predominance of market forces in a competitive market economy, the liberalization of exchanges by the progressive removal of government interventions within borders and at them, the provision of residual protection by the stable and transparent instrument of the bound tariff, and the resolution of trade disputes by reference to a set of agreed rules (Viraven, 1987). By these standards, agricultural trade has been an area in which the GATT has failed. The volume, value and direction of agricultural trade flows are much affected by government interventions; the level of agricultural protection has been rising; protection is afforded predominantly by non-tariff measures; government actions that influence trade are little influenced by either the letter or the norms of the Agreement; countries contest the interpretation of the rights and obligations conveyed by the Agreement; and appeal to the provisions of the Agreement has proved to be a poor basis for resolving disputes on agricultural trade matters (Hudec, 1987).

These are not recent developments. The 40 year history of the Agreement is a story of failure to constrain the actions of governments that distort agricultural trade and to subject international commerce in farm and food products to the disciplines of a liberal and rule-bound international economic order. However, there have been continuous attempts to rectify this situation in the past. The treatment of agricultural trade was at issue in the drafting of the Agreement. The subject has been continuously addressed by the contracting parties through working parties, in review sessions and in special committees. A disproportion-

*University of Guelph

ate number of the disputes taken to the GATT have concerned trade in agricultural products. Agricultural trade was a central issue in the Dillon, Kennedy and Tokyo Rounds of trade negotiations. And past confrontations on agricultural trade have involved the same major powers and the same range of ideologies and interests as are engaged today in the Uruguay Round.

This paper reviews this past history. Its purpose is to illuminate present issues, and to focus attention on the differences in economic circumstances, national positions and proposed negotiating modalities that lend support to the view that the Uruguay Round could mark the turning point when concerted action caused agricultural protectionism to recede, when co-operation replaced confrontation, and when trade in agriculture began to conform to the norms of a liberal and lawful international economic order.

MULTILATERAL TRADE NEGOTIATIONS UNDER GATT

In the beginning

The treatment of trade in primary products, including agricultural products, was a contentious issue throughout the mid-1940s in the preparatory meetings and conferences leading to the drafting of the Havana Charter with its provision for the creation of an International Trade Organization. These disagreements carried over into the drafting of the General Agreement on Tariffs and Trade in 1947. From the very beginning there were differences between those who thought that trade in agriculture should be liberalized and subject to the normal GATT rules and those who thought it should be organized, between exporters and importers of primary products, and between the economically advanced and the developing countries (Curzon, 1965; Dam, 1970). In the end, the Contracting Parties left the door open in the Agreement for the polar extremes of liberalization and international market management through intergovernmental commodity agreements (Article XX:h).

The Agreement's scant references to trade in agriculture was a silent promise to efficient exporters that their interests would be advanced by the same means and at the same speed as those of exporters of manufacturers. But what *was* said was a portend of reality, for Article XI:2(c) permitted the use of quantitative import restrictions when '. . . necessary to the enforcement of governmental measures which operate . . . to restrict the quantity of the like product permitted to marketed or produced . . .', while Article XVI permitted the use of both production and export subsidies. Article XI import restrictions were subject only to a weak obligation to restrict imports and national production equally, and the original Article XVI only required subsidizing countries to discuss the possibility of limiting their subsidies with countries whose interests were seriously prejudiced. These provisions were written into the Agreement over the protests of most exporters at the insistence of the United States Administration which knew that the Agreement would be repudiated by Congress if it conflicted with the requirements and provisions of domestic farm legislation. Thus, from the very outset, the trade rules of the GATT were tailored to fit domestic farm programmes rather than the reverse (Hathaway, 1987).

Agricultural trade was constantly before the Contracting Parties in the early and mid-1950s, and particularly at the 1954–55 review session. As surpluses mounted and their disposal became more market disruptive, some countries sought unsuccessfully to have surplus disposal operations brought under the authority of the GATT (Jackson, 1969). An attempt to curb the trade-distorting effects of subsidies backfired in the sense that the revision of Article XVI resulted in no strengthening of Section A's provisions on the use of domestic subsidies and the new Section B explicitly authorized the use of subsidies on exports of primary products subject only to the requirement that they might not be used to obtain '. . . more than an equitable share of world trade . . .'. Quantitative import restrictions were maintained behind the facade of balance of payments difficulties long after their justification on payments grounds had disappeared. And in 1955 the United States obtained a waiver from its obligations under Articles II and XI, in response to Congress' edict that quantitative import restrictions must be used to defend US farm programmes even where the latter did not contain domestic supply control measures. Whilst the US had legalized its position, the removal by the architect of the post-war trading system of its agricultural import trade from the authority of the GATT, and its assertion of the primacy of its domestic farm policy objectives over its international obligations, legitimized similar behaviour by others and reinforced the perception that trade in agriculture was subject to its own special standards. On the other hand, countries were unwilling to agree to add special provisions on commodity agreements to the GATT for this would have endorsed the proposition that agricultural trade was indeed different (Curzon, 1965).

In the event, no proposal for action was acceptable in the 1950s other than the study of the problem. The Habeler Report was the result of such a study (GATT, 1958). This documented the relationship between distorted agricultural trade and national farm programmes, catalogued the non-tariff measures employed, measured the high degree of protection, and stated that (both rich and poor) efficient exporters of agricultural products would not receive the benefits of their comparative advantage and realize the promise of the GATT until protecting countries reformed their national farm programmes and liberalized the agricultural trade arrangements that accompanied them. The report is as germane today as it was 30 years ago.

The Habeler report led to the establishment of three special committees. One of these, Committee II, did a great deal to illuminate further the problems of agricultural trade by organizing consultations and confrontations over individual country's agricultural policies and trade regimes (GATT, 1962). The proposed common agricultural policy of the European Economic Community gave rise to a good deal of controversy, but the work of Committee II led to no noticeable action in changing farm programmes, in encouraging the observance of existing rules, or in strengthening the substantive provisions of the Agreement.

Dillon Round, 1960–62

The Dillon Round was conducted under Article XXIV:6 of the Agreement and technically was designed to secure new tariff bindings from the European Economic Community (EEC) on its common external tariff, equivalent in value to the bindings earlier granted by the member states. The United States took the lead also in attempting to minimize the threatened adverse agricultural trade effects for exporters of Europe's emerging Common Agricultural Policy (CAP). Apart from the zero binding obtained on oilseeds and nongrain feeds, the agricultural trade results were fateful insofar as the US and others acquiesced in the violation of their GATT rights and permitted the introduction of the minimum import price-variable import levy-variable export subsidy mechanisms of the CAP. It may well be that the United States could not have persuaded Europe to choose an alternative instrument for the CAP, and that the geopolitical imperatives of fostering European unification was worth some economic price. However, no one foresaw that the price would be so high in terms of the damage subsequently done to agricultural trade and to the liberal trading system as a whole.

Kennedy Round, 1963–67

The overall purpose of the US initiated Kennedy Round of trade negotiations was to ensure that a united Europe (including the United Kingdom) would be outward-looking economically and joined with the United States in an Atlantic Alliance ('a free world economic community') in the joint management of economic and security problems. In agricultural trade policy terms the global task was to respond to the challenge of the Habeler report by liberalizing trade in temperate zone agricultural products and by ensuring that trade arrangements for primary products contributed more surely to the economic emancipation of developung countries. In more mundane terms, the United States was going through one of its cyclical rediscoveries of the importance of agricultural exports to the health of its agrifood system and to its balance of payments and sought to assure access to its most important commercial market (Evans, 1971; Preeg, 1970; Curtis and Vastine, 1971).

The US's initial negotiating proposal was that the protection afforded by existing border measures be bound and halved, and that the Community give minimum access commitments equal to existing levels of imports for products for which the Community was evolving common regulations and prices. The Community was concerned to defend the essential elements of its first common economic policy, and to maintain its freedom of action in the not-yet-completed process of formulating common prices and commodity policy regimes. Its initial response was to advance the concept of binding margins of support in relation to world reference prices. When this proved unacceptable to the exporters, the Community reverted to the concept of access guarantees by offering to bind maximum self-sufficiency ratios.

In recent years much has been made of how Europe's subsequent agricultural import displacement and export expansion could have been averted if the exporters had had the foresight to accept the '*montant de soutien*'and/or 'self-sufficiency norms' proposed by the Community. This is unfair to the negotiators. The *montant de soutien* was always a concept, never a proposal. It did not in fact entail binding the degree of support but only the high minimum import prices that the Community was in the process of establishing, and then only for three years. There was nothing in the Community's offer to prevent the incentive prices of the CAP resulting in import substitution and export development. And, in so far as it was suggested that the scheme be globalized, exporters were being invited to endorse 'a CAP for the world'. Similarly the self-sufficiency ratio concept translated into requests (on grains) that were too restrictive for the Community and offers that were too little to be acceptable to the exporters' domestic legislatures. Furthermore, the minimum access commitment by the importers would only have applied for three years and only in conditions of global surplus, and exporters too would have had to accept market sharing obligations.

It may be said in favour of the *montant de soutien* concept that it contained the idea of using a common yardstick of support in a formula approach to constraining by international agreement the parameters of domestic support programmes. And a meaningful and proportionate access guarantee would have forced the Community and others to limit the output response to the incentive prices they provided their farmers for purposes of income support and to co-operate in adjusting output in weak market conditions. But the times were not right for acceptance of such obligations. The exporters had gone to Geneva to make the CAP less protectionist, and they were not prepared to accept parallel obligations to change their own agricultural programmes and accompanying trade arrangements for their export commodities, still less for the products they imported. For its part the Community was not ready to accept external constraints on its emerging common agricultural policy. In fact, the Commission used the negotiations in Geneva to force decisions on the CAP to be taken in Brussels.

Hence, little was accomplished on agriculture in the four year long Kennedy Round. Negotiations on dairy products and meats fell victim to the lack of progress on grains. The economic provisions of the Wheat Trade Convention in the new International Wheat Agreement that was salvaged from the negotiations on grains were defunct within a year. No international constraints were placed on the use of subsidies and other non-tariff measures, and access was improved only marginally by the binding and reduction of tariffs. Overall, the agricultural trade situation took a marked turn for the worse during the course of the Kennedy Round negotiations with the emergence of the CAP with its high levels of support implemented by variable import levies and variable export subsidies. Europe, however, was not alone in intensifying agricultural protectionism even while negotiations on liberalization proceeded; for example, the US introduced quantitative import controls on ruminant meats in 1964 and Canada put in place the major elements of its highly protectionist dairy policy in 1965.

Tokyo Round, 1973–79

The multilateral trade negotiations initiated in September 1973 were an integral component of the response to the turbulence in the world economy that developed in the 1970s. The dislocations of the times included: the collapse of the Bretton Woods system of fixed exchange rates; a surge in the prices of food and energy; the demand by the developing countries for a new international economic order; the onset of 'stagflation'; and the enlargement of the European Economic Community. The Tokyo Round was seen as a rededication to multilateral co-operation in stabilizing the international economy, as a means of reversing the drift to protectionism, and as a vehicle for making a liberal response to the demands of the developing countries. Monetary reform, trade liberalization and intensified development co-operation were all tied together (OECD, 1972).

The priority task in trade reform was to resist protectionism by taking a further stride towards liberalization. The focus was on coming to grips with the non-tariff measures that were beginning to be seen as the major source of trade distortions. This entailed international rule making about national economic policies and their trade effects. A particular concern was to deal with the subsidies that governments were increasingly using as they became more involved in the management of their overall economies and particular industries within them.

Agriculture was central to the negotiations for four reasons. First, the United States and other exporters needed improved access to import markets if agrifood exports were to make their full contribution to sector returns, payments balances and economic recovery. Second, agriculture epitomized the generic problem of the influence of domestic subsidy policies on international trade. Third, there was a need to examine the scope for stabilizing commodity markets through co-operative international arrangements that channelled national farm programmes in appropriate and consistent directions. Finally, it was felt that trade arrangements could make an important contribution to enhancing food security.

The onset of substantive negotiations on agriculture was delayed for almost four years by a dispute between the US and the EEC on whether agriculture should be negotiated in a separate group or merely be included in agreements negotiated elsewhere, particularly on tariffs and subsidies (Winham, 1986). Procedure was substance, for whereas the US was demanding that agricultural trade be treated the same as trade in other goods and subject to the disciplines of new codes on non tariff measures, the EEC was both philosophically persuaded that agriculture was different and politically determined that the CAP (which had finally been put in place) would not be undermined by the imposition of multilateral constraints on its operation and instrumentation.

The EEC won the procedural and substantive points. The negotiations on agriculture were separated from the negotiations on other topics, and specifically from the discussions which led to a new code on the use of subsidies and the response to them.

Improved access for agricultural products was dealt with on a request and offer basis, and the limited agreements on tariff bindings and reductions and import quota enlargements that were reached were not influenced by the formula approach to tariff cutting and the (abortive) attempt to devise a code on quantitative restrictions pursued in other groups. Commodity arrangements were successfully negotiated for dairy products and bovine meats. Both emphasized information exchange and consultation. The International Dairy Arrangement also had minimum export price provisions. They did not significantly deepen international co-operation and neither has had any discernible influence on subsidization and access. Negotiations on grains focused on expanding food aid commitments and on creating an arrangement that would provide for greater price stability and enhanced food security by concerting national stock holdings and policy adjustments in relation to changing market conditions as indicated by price 'triggers'. Food aid obligations were doubled. But because of differences on the width of price bands, the size and shares of stocks and the obligations of developing countries, no new grains agreement was formulated. There was some interest in creating a new institutional arrangement to provide for deepened agricultural policy consultation, confrontation and harmonization but this too came to nothing and the function passed to GATT's new Consultative Group of Eighteen.

The area of the MTN that was potentially crucial to agriculture was the work of the group negotiating the subsidies and countervailing duties code. However, the code discussions were not sharply focused on agricultural subsidization or on exporter competition in third markets which is where the agricultural trade problem is most severe. The United States pushed for a code which would tame the use of subsidies to the production and export of manufactures and agricultural products alike, while the EEC and other countries were primarily concerned to get the US to accept in bilateral trade the injury test already provided for in the Agreement (but not observed by the US) before countervailing the subsidies of others (Rivers and Greenwald, 1979). The EEC saw little need to change either the substantive provisions or the wording of the General Agreement itself and had no interest in having a stronger code materially constrain the production and export subsidies provided to agricultural products under the CAP. Accordingly, only a weak subsidies code emerged. Indeed, the code now gives countries the right to take their complaints about the domestic subsidy practices of others to the GATT, the code's provisions with respect to domestic subsidies might be judged to be retrograde in so far as their legitimacy and usefulness were confirmed and a long list of acceptable reasons for using them was articulated. This has done nothing to limit import substitution and the increased production of export products arising from the domestic subsidization of agriculture. The use of export subsidies in trade in primary products was again tolerated. However, an attempt was made to strengthen the provisions with respect to their use by strengthening the 'equitable share' rule of Artide XVI:3 by clarifying the phrase 'in a previous representative period' and by introducing the concepts of displacement in individual markets and price under-cutting. When in later years the code was invoked in agricultural trade disputes it was found wanting in that every one of the key terms of the code and the articles it amplified were found to lack legal precision. Beyond that, the EEC reacted with an air of betrayal and indignation at attempts to apply the code to its agricultural trade (Petit, 1985). In short, the subsidies code failed to fundamentally redefine the permissible limits of the effects of subsidies on trade or to cause governments to redesign their farm programmes so as to remove or limit the trade distortions caused by their agricultural production and export subsidies.

And so, at the end of yet another GATT round, the international community had again come up short in liberalizing agricultural trade and disciplining agricultural subsidy practices. Agriculture emerged as it entered: the most highly protected major sector in national economies, the most undisciplined area of international commerce, and the cause of some of the most fractious and dangerous frictions in international economic relations.

The discouraging situation that existed for agricultural trade at the conclusion of the Tokyo Round was documented in 1982 by the GATT Secretariat (GATT, 1982). This study noted that agricultural trade was treated as a special case in the Agreement itself, especially in regard to the use of quantitative import restrictions and export subsidies. Many countries escaped the GATT's obligations with respect to their agricultural trade by reason of waivers, protocols of application and admission and other derogations. The interpretation of the GATT's provisions as they applied to agricultural trade was disputed. The Agreement was silent on some of the most important policy instruments that influence trade in farm products, notably variable import levies, minimum import prices and voluntary export restraints. The GATT's dispute settlement mechanisms were not working adequately, in part because of the legal imprecision of the language codifying the contracting parties' rights and obligations. And, though it was not said, some countries simply behaved as though they had no legal obligations under the Agreement in respect of their trade in farm and food products, though when challenged they had little difficulty in claiming 'coverage' for their behaviour in the ambiguities of the Agreement and codes.

Uruguay Round, 1986–?

The ineffectiveness of the GATT in disciplining trade in agriculture was masked and made more tolerable in the 1970s by the rapid growth in world agricultural trade, particularly in grains. This has not been true in this decade when the output incentives contained in commodity-centred income support programmes have maintained excess production capacity relative to flagging effective demand, and resulted in the growth of exportable surpluses, the accumulation of stocks, the collapse of prices, a subsidized scramble for available markets and heightened political frictions over agricultural trade matters.

The response to the deterioration in world markets has gone through various stages thus far in the 1980s (Paarlberg, 1988). Bilateral consultations between the US and the EEC produced little. The new subsidies code and other components of the General Agreement were tested by referring agricultural trade conflicts to the GATT's dispute settlement procedures and shown to be inadequate. In 1982 a study group was established (the Committee on Trade in Agriculture) and a study programme authorized (the Trade Mandate Study) in the GATT and the OECD respectively. The reports on these studies (GATT, 1984; OECD, 1987) constituted the technical preparation for possible negotiations. The economic stakes were raised by the US with the enactment of the Food Security Act of 1985 under which national and international grain market prices (but not target prices) were lowered and export subsidies re-introduced. Small and medium sized exporters that were caught in the crossfire of the resultant agricultural trade war joined in the Cairns Group in 1986 and demanded fundamental agricultural trade reform. Agricultural trade problems and the imperatives of their resolution received attention at the highest political level in the Tokyo and Venice economic summit meetings of the heads of government of the major Western counties. All this political and technical preparation culminated in the September 1986 Punta del Este ministerial declaration launching an eighth post-war round of multilateral trade negotiations.

The Declaration opened the way for negotiations on all measures affecting import access and export competition in farm products. That this included national agricultural policies as well as border measures was reinforced by the OECD ministers in May 1987 who spelled out the main lines along which national agricultural policies should be reformed (OECD, 1987). Though differing in many important respects, the initial agricultural negotiating proposals tabled by major participants in 1987 and 1988 all envisage a combination of reducing the trade distorting effects of national farm programmes and subjecting agricultural trade to stronger and more effectively applied GATT rules and disciplines (National Center for Food and Agricultural Policy, 1988). And there the matter stands. Other papers in this session will now take the subject forward by examining specific features of the negotiations and offering insights into the prospects for their success. The final task for the present paper is to draw some lessons from the historical record here described, with a view to identifying key matters that will shape the future treatment of trade in agriculture under the GATT.

CONCLUSIONS

As has been observed many times, the basic cause of the problems of trade in agriculture is that there has always been a fundamental divergence between the interventionist nature of domestic farm programmes and the ascendent assumptions of competitive markets which are the foundations of the GATT. If governments are unwilling to allow competitive market forces to shape their agrifood sectors at home, it is not to be expected that they would be willing to submit agriculture to an international trading system that is predicated on an increasing role for competition and a reduced role for governments. The history of agriculture in the GATT is one of accommodating the General Agreement to fit the purposes and provisions of anti-competitive national agricultural policies, and of resisting attempts to have the disciplines of the Agreement constrain national sovereignty in policy making for agriculture by disciplining the trade effects of national support programmes.

Herein lies the best hope for agricultural trade reform in the Uruguay Round. For in the mid-1980s, the major countries were showing disenchantment with the exploding budgetary expense, the heavy economic costs, the manifest failures, the many perversities and the diplomatic frictions that were characterizing their domestic farm support programmes. Everywhere, for national reasons, governments seemed disposed to redefine the objectives of their agricultural policies and pursue these by new programme instruments that were more cost effective at home and less disruptive abroad. Moreover, as a group, the developed countries agreed in the 1987 OECD communique that the main elements of reform should be the 'recoupling' of national and international commodity prices, the 'decoupling' of support for farm people's incomes from their production and marketing decisions, and the 'targeting' of support on better identified groups and purposes.

In the period 1985–7 the desire for domestic change in farm policies came together with demands for international agricultural trade reform, for it was seen that national programmes could be changed in ways that made them less disruptive of markets and international economic relations, while the concertation of policy reform by all would lower the adjustment and political costs to be borne by each. This confluence of internal preferences and external needs is unique in the 40 year history of the GATT. If this commitment to farm policy reform is sustained domestically, it may be possible to translate it into legally binding international obligations under the GATT to change farm policies in ways that make them less trade distorting. The combination of internationally agreed changes in domestic farm programmes and the more effective application of stronger GATT rules and disciplines as they apply to agricultural trade would result in the long-sought improvement in the trading system for farm products (Josling, Miner and Hathaway, 1988; Tangermann, 1988).

There can be no question that binding the elements of national programmes in multilateral negotiations would mark a fundamental departure for the GATT. Hitherto, the contracting parties have appealed to the Agreement to deal with the trade effects of policies that dealt with other matters. If the GATT is now used to reach binding agreements to change the instrumentation and parameters of domestic economic policies having undesirable external effects, it will be a significant innovation in the use of the Agreement and, indeed, in international economic relations. Agriculture would not be 'catching up' but pioneering the new modes of interaction that will be required in an interdependent world in which governments play a larger role in domestic markets and find increasing conflicts between their national industrial and sectoral strategies and their international obligations (Diebold, 1980).

Another feature that stands out from the historical review of the treatment of agriculture in the GATT is the influence of the major national and regional players. Their influence and preferences may be changing in ways that could be supportive of an international accord on agriculture.

Looking back it can be said that in the days when the United States was a hegemony it subordinated its vision of an open trading system to the priorities of its own agricultural policy by writing exceptions for quantitative restrictions and export subsidies for trade in agriculture into the rules and by taking much of its own agricultural trade out of the GATT with its 1955 waiver. This set a pattern of expectations and behavioural norms that it would later protest against. In the 1960s its strategic interest in European integration caused it to moderate its challenge to Europe's emerging farm policy (Schaetzel, 1985). By the 1970s it was too late to effect fundamental change in the CAP. Time will show whether the current US Administration's enthusiasm for the desubsidization of agriculture and the liberalization of trade in farm products will attract lasting Congressional support at home and catalyze parallel actions abroad.

The European Community's role in the development of the trading system for farm products has been exceptionally negative, but only in degree. In its initial 30 years Europe was occupied with the creation of its first common economic policy and later with its defense as the 'foundation and cement' of the Community. The CAP's negative external effects on markets, on the trading system and on diplomatic relations seemed of lesser concern. In the 1960s the viability of the CAP was sustained by the ability to displace imports in an enlarging Community and in the 1970s by an ability to sell exportable supplies into buoyant markets (Duchene, *et al.*, 1985). In the 1980s, exportable supplies can only be moved on to world markets at great financial expense and unwanted internal and external political antagonisms, and to the benefit of its economic competitors and ideological adversaries. This new reality has already caused the Community to end the open-ended guarantees that were the hallmark of the CAP, and to indicate an intention to make yet more fundamental reforms (Mohler, 1988). The change in the objective circumstance of European agriculture augurs well for future international agricultural trade relations.

Agricultural protectionism is deeply entrenched in Japan by three factors: its concern with food security, the uncompetitiveness of its poorly-structured farms and the political influence of the rural electorate. Japan has less interest in domestic farm policy reform than the other major countries. Its reluctance to liberalize access for imports of farm and food products (which is reflected in Japan's conservative Uruguay Round proposal) is, in itself, a discouraging continuation of past preferences and behaviour. However, Japan has other interests in the negotiations which will have to be balanced against access for agricultural imports; notably, the maintenance of open markets for exports of manufactures and the creation of a non-discriminatory safeguards code. But beyond that, for the first time since the end of World War II, Japan seems ready to acknowledge that it too has a responsibility for the maintenance of a liberal international trading system. Hence, Japan may now be ready to make a contribution to the better performance of the agricultural trading system commensurate with its stake in the functioning of the international trading system as a whole.

Negotiations on agricultural trade in all previous GATT rounds have had the character of gladiatorial contests between the US and the EEC. Whilst it is still true that nothing of significance can be accomplished without the agreement and cooperation of these two agricultural super-powers, this time there is a new and very active player, the Cairns Group. The importance of the Cairns Group seems to be, first, its role in articulating discontents and building the political momentum required for reform, second, in representing the shared interests of the smaller developed and developing country agricultural net exporters and, third, in forging a bridge between the radical proposal of the United States and the more guarded proposal of the European Community.

Those who remain pessimistic about the prospects of fully integrating agriculture into the GATT certainly have history on their side. But there is a real sense amongst experienced participants and long-time observers that this time things really might be different. For never before has there been:

– a political acknowledgement that national farm programmes are the root cause of international agricultural trade problems and explicit agreement that since all are culpable all must contribute to the latter's solution;
– the need for change in international agricultural trade conditions and relations to coincide with the desire for farm policy reform domestically;

– an appreciation that domestic changes can most easily be accomplished if they are done in concert in a multilateral accord;
– a perception that what is needed is a comprehensive approach, using some practical quantitative indicator (that can capture the trade distorting effects of diverse farm policy instruments and establish the direction and pace of change simultaneously in all countries and for all commodities) together with a strengthening of GATT's rules as they apply to agricultural trade;
– a recognition that failure to resolve the critical problems of trade in agricultural products could endanger the GATT system itself.

There is no doubt that there are important differences between the participants on how far and how fast they are prepared to travel towards the intertwined goals of agricultural and trade policy reform, and on the staging of their journey. But the unprecedented agreement that the journey should begin and on the direction and on the method of progress, must surely encourage cautious optimism that at the end of the Uruguay Round we shall finally be embarked on a road that will lead to a more liberal, predictable and orderly trading system for farm and food products.

REFERENCES

Curtis, T.B. and Vastine, J.R., 1971, *The Kennedy Round and the Future of American Trade*, Praeger, New York.

Curzon, G., 1965, *Multilateral Commercial Diplomacy: The General Agreement on Tariffs and Trade and its Impact on National Commercial Policies and Techniques*, Joseph, London.

Dam, K.W., 1970, *The GATT – Law and International Economic Organization*, University of Chicago Press.

Diebold, W., 1980, *Industrial Policy as an International Issue*, McGraw-Hill, (for Council on Foreign Relations), New York.

Duchene, F., Szczepanik, E. and Legg, W., 1985, *New Limits on European Agriculture*, Rowman and Allanhead, (for Atlantic Institute for International Affairs), Ottawa.

Evans, J.W., 1971, *The Kennedy Round in American Trade Policy: The Twilight of the GATT?*, Harvard University Press.

General Agreement on Tariffs and Trade, 1958, *Trends in International Trade: A Report by a Panel of Experts* (The Habeler Report), GATT, Geneva, October.

General Agreement on Tariffs and Trade, 1962, *Trade in Agricultural Products, Reports of Committee II on Country Consultations*, GATT, Geneva.

General Agreement on Tariffs and Trade, 1982, *Agriculture in the GATT*, CG18/W/59, GATT, Geneva, 20 January.

General Agreement on Tariffs and Trade, 1984, *Recommendations of the Committee on Trade in Agriculture Adopted by the Contracting Parties at their 40th Session*, L/5753, GATT, Geneva.

General Agreement on Tariffs and Trade, 1986, *Ministerial Declaration on the Uruguay Round*, 86–1572, Geneva, 20 September.

Hathaway, D.E., 1987, *Agriculture and the GATT: Rewriting the Rules*, Institute for International Economics, Washington, DC.

Hudec, R.E., 1987, '"Transcending the Ostensible": Some Reflections on the Nature of Litigation Between Governments', *Minnesota Law Review*, 72(2), December.

Jackson, J.H., 1969, *World Trade and the Law of GATT*, Bobbs-Merrill, Indianapolis.

Miner, W.M. and Hathaway, D.E. (eds), 1988, *World Agricultural Trade; Building a Consensus*, Institute for Research on Public Policy, Ottawa and Institute for International Economics, Washington, DC.

Mohler, R., 1988, 'The European Community', paper presented to the RIIA/IFO Institut/TPRC

conference on 'World Agriculture: Prospects for Reform of Farm Support Policies', Munich, 9–11 May.
National Center for Food and Agricultural Policy, 1988, *Proposals Presented to the GATT for Negotiations on Agriculture*, Resources for the Future, Washington, DC.
Organization for Economic Cooperation and Development, 1987a, *National Policies and Agricultural Trade*, OECD, Paris.
Organization for Economic Cooperation and Development, 1987b, Communique, Press Release, A(87)27, OECD, Paris, 13 May.
Organization for Economic Cooperation and Development, 1972, *Policy Perspectives for International Trade and Economic Retentions*, Report by the High Level Group on Trade and Related Problems to the Secretary General, OECD, Paris.
Paarlberg, R.L., 1988, *Fixing Farm Trade: Policy Options for the United States*, Ballinger (for Council on Foreign Relations), Cambridge.
Petit, M., 1985, *Determinants of Agricultural Policies in the United States and the European Community*, Research Report 51, International Food Policy Research Institute, Washington, DC.
Preeg, E.H., 1970, *Traders and Diplomats*, The Brookings Institution, Washington, DC.
Rivers, R.R. and Greenwald, J.D., 1979, 'The Negotiation of a Code on Subsidies and Countervailing Measures: Bridging Fundamental Policy Differences', *Law and Policy in International Business*, Vol. 11:1447.
Schaetzel, J.R., 1985, 'The European Community, the CAP, and American Interests' in *Confrontation or Negotiation: United States Policy and European Agriculture*, Associated Faculty Press, Milwood (for the Curry Foundation) Washington, DC.
Tangermann, S., 1988, 'Uruguay Round Negotiations and Proposals for the Liberalization of Agricultural Trade', paper presented at RIIA/ITO Institut/TPRC conference on 'World Agriculture: Prospects for the Reform of Farm-Support Policies', Munich, 9–11 May.
Viravan, A. *et al.*, 1987, *Trade Routes to Sustained Economic Growth*, Macmillan, London, (for Trade Policy Research Centre and the United Nations).
Winham, G.R., 1986, *International Trade and the Tokyo Round Negotiation*, Princeton University Press.

DISCUSSION OPENING – FRED SANDERSON

Let me start by expressing my admiration for Professor Warley's masterful account of the 40 year failure of GATT to come to grips with agricultural protectionism. I agree with the thrust of it and shall refrain from quibbling about details. I shall instead, focus on the lessons we can draw from this experience, and whether or not circumstances are sufficiently different this time to attempt a 'great leap forward' which – as Dr Warley points out – would go considerably beyond what has been achieved in the industrial field.

I also agree with the objective of eliminating all domestic interventions that distort international trade. That must be the ultimate goal in the GATT. What I am concerned about is that we have not done our homework in convincing the people who carry weight in shaping agricultural policy in the US, the EC and elsewhere that this is the way to go, and much less, that the time to begin is now. International negotiations will succeed only if they are supported by a fairly broad consensus among domestic policy makers.

It will be argued that there can be no harm in trying. But I fear that if the negotiators in Geneva spend most or all of their time trying to hammer out a framework for radical agricultural policy reforms and a degree of liberalization that may turn out to be unrealistic in this round, they will miss the opportunity to negotiate more limited agreements, for example, on subsidies and market access, that eluded us in previous rounds but may now be within our reach.

Professor Warley bases his optimism on three developments which he feels are favourable to a breakthrough towards agricultural policy reform:

(a) different economic circumstances
(b) different national positions, and;
(c) proposed new negotiating techniques.

I shall take them up one by one.

(1) *Economic conditions are subject to cycles.* Probably, what Dr Warley had in mind is the world market glut that has caused agricultural budgets to explode and subsidy wars to escalate. Perhaps he was also thinking of the fact that the EC, once a net importer able to impose most of the cost of agricultural support on its consumers, has now joined the exporters who cannot avoid increasing budget costs when disposing of their surpluses. Unfortunately, in such situations, the taxpayers' (and finance ministers') impatience with the rising budget costs is matched by the producers' more determined resistance to any tampering with price supports.

Now we are witnessing a turnaround in world markets: prices began to strengthen even before the North American drought. Is this a more favourable time for trade liberalization? One might think so, except that budget pressures are now considerably alleviated, causing finance ministers and parliaments to be more relaxed about needed policy reforms. Indeed, experience has shown that the greatest danger of seeing increases in price supports is when markets are strong: politicians on both sides of the Atlantic enacted higher price supports during the boom years – when no immediate costs were involved – which then caused large surpluses when the markets turned soft. Good times or bad, there never is a lack of arguments for more protection, or at least, for 'not rocking the boat'.

I would be inclined to give greater weight to structural changes in agriculture as a factor favouring agricultural policy reform. In the US as in the EC, a large and growing share of the benefits of the present support systems goes to large, efficient producers who are least in need of assistance. I believe that, more likely than any other consideration, the increasing inequity in the distribution of benefits will ultimately break the back of the price support systems.

(2) Have *national positions* become more favourable to agricultural policy reform? There was a time – three years ago – when I thought so. The US administration had just launched its bold proposal to phase out domestic price supports and subsidies in five years. There was a remarkable public consensus in the US – ranging from conservatives to liberals – on the general direction of policy reforms. The European Commission had just published its 'green paper', which was market-orientated although it still maintained that there was a continuing need for protection of European agriculture. These initiatives were promptly derailed by the farm lobbies. The intervening years have brought a sharp increase in agricultural protectionism throughout the industrialized world – with the exception of New Zealand, a small country heavily dependent on agricultural exports, that felt it simply could no longer afford it.

Few informed Americans believe that the negotiations in Geneva will have a significant impact on the new agricultural legislation due to be enacted in 1990.

In the EC, there seems to be a growing sentiment that recent efforts to discourage further increases in milk, grain, and oilseed production, and to slow down the growth of agricultural expenditures, already represents a great achievement in agricultural policy reform which other countries are called upon to match.
(3) Now to Dr Warley's third point: the proposed *new 'negotiating modalities'*. He half admits that perhaps they are not so new after all: the Producer Subsidy Equivalent (PSE), developed in the OECD, resurrects the *'montant de soutien'* (support margin) proposed by the EC in the Kennedy Round. My recollection is – and my colleagues from Canada, Australia and Argentina may be able to confirm this – that the grain exporting countries did not reject the concept, but lost interest when it became clear that all the Community could offer was a 'consolidation' of the *status quo*. In retrospect the exporting countries were right: because of productivity growth, a mere freezing of the EC support prices would not have restrained the import substitution and the escalation of subsidized exports in the years that followed.

It is true that the Kennedy Round negotiators did not give much thought to the other pillar of the current proposal: the replacement of the present trade-distorting government interventions by equally generous but, hopefully, less trade-distorting 'decoupled' payments. Intended to enlist the support of the farm lobbies, this concession carries a great risk, as the list of admissible payments is lengthened to include: two-price systems similar to the EC sugar regime; deficiency payments provided they are not based on a farm's current production; massive disaster relief and other forms of free insurance; not to mention special tax privileges. Loosely interpreted, such 'decoupled payments' may well open escape hatches that will enable the industrial countries to continue more or less what they are doing now. Repeated ineffective attempts in the GATT to distinguish between harmless and trade-distorting domestic subsidies in the industrial field are precedents that are not encouraging.

I do not want to conclude on a negative note. My advice is to give first priority to the more modest objectives agreed upon at Punta del Este. Let us implement the 'standstill and rollback' by whatever step we find possible to take, given our domestic politics, institutions, and available policy tools. I have proposed such a pragmatic approach that would allow the US to move toward greater market orientation and the EC, if it so desires, to place greater reliance on supply management. This approach would still permit co-ordinated policy changes that would contribute to a better balance between supply and demand, consistent with the trade effects that might be expected from a general move in the direction of comparative advantage. We can take comfort from the fact that all participants have recognized for the first time that domestic agricultural policies can no longer be regarded as sacred cows, and that we should all strive for 'greater liberalization'. This gives reason to hope for a positive outcome of the agricultural negotiations – provided we do not overload the circuit with unrealistic expectations.

At the same time, it is important that we should not lose sight of the long-run objective of agricultural liberalization. The OECD study and Ministerial guidelines have contributed to a better understanding of what is required to make progress toward this goal. I would agree that the concept of across-the-board reductions in market-distorting interventions – be they governmental or private

– can play a useful role in that context. So rather than putting the PSE approach upfront (where it can become an excuse for avoiding negotiations on specific commodities and policies), I could see an agreement on an aggregate target, expressed in terms of the PSE or some similar measure, emerge at a later stage of the negotiations. The more precision and binding force that can be given to that target, the better it will be.